ICPM INVESTS IN PENSION RESEARCH:
FOUR NEW PROJECTS RECEIVE FUNDING

Stefan Lundbergh

Stefan Lundbergh is Chair of ICPM’s Research Committee and Head of Innovation, Cardano (Netherlands).

Since its inception in 2005, Rotman ICPM has invested $1.3M in producing 29 high-impact research projects and 6 “live” case studies about strategic issues in the pension industry. In total, 66 prominent researchers and case writers have contributed to these efforts. Completed Research Papers can be accessed through the Rotman ICPM website. Research Papers are presented at Discussion Forums and published in the Rotman International Journal of Pension Management. This update describes four new research projects that the ICPM Research Committee has selected for funding over the 2013/2014 period.

The ICPM Research Committee’s call for research proposals this past January resulted in 45 Intent to Submit responses, of which 11 were asked to deliver Full Research Proposals. Of these 11, the Committee approved 4 projects for funding. A Research Liaison has been appointed to each of these projects who will act as an important link between the selected academic researchers and the practical challenges that ICPM Research Partners face. Research Liaisons help the researchers strengthen their projects by providing a good understanding of the practitioners’ reality, and provide feedback and contacts to them over the course of project. Selected researchers are funded over a two-year period and are usually invited to present their findings at ICPM Discussion Forums and to write a practical article for the Rotman International Journal of Pension Management.

Research Committee Members

- Susan Christoffersen, University of Toronto (Canada)
- Jaap van Dam, PGM (Netherlands)
- James Davis, Ontario Teachers’ Pension Plan (Canada)
- Alexander Dyck, University of Toronto (Canada)
- Jack Gray, Sydney University of Technology (Australia)
- Gordon Hagart, Australia Future Fund (Australia)
- Steven James, Canada Pension Plan Investment Board (Canada)
- Steven Lerch**, State of Washington (United States)
- Stefan Lundbergh*, Cardano (Netherlands)
- David P. Richardson, TIAA-CREF (United States)
- Will Sandbrook, National Employment Savings Trust (United Kingdom)
- Onno Steenbeek, Algemeen Pensioen Groep (Netherlands)

* Chair **Vice-Chair

Research Proposals Granted Funding for FY 2013/2014

Factors

Richard Roll, University of California Los Angeles (United States)
Kuntara Pukthuanthong, San Diego State University (United States)

While it is now generally agreed that multiple factors drive asset returns, the identities of these factors remain subject to wide debate. We will survey the existing literature on risk factors and suggest a protocol for identifying them. Certain principles will apply. For instance, factor movements should not be easily predictable. A characteristic such as firm size, or anything else known in advance, cannot be a factor. However, characteristics can be related to mean returns, either because they happen to align with factor loadings or because they represent arbitrage opportunities. Truly pervasive factors, those that accompany risk premiums, must be related to the covariances among returns on real assets only, not to the covariances of any assets in zero net supply, such as bonds and derivatives. Time variation in covariances is a challenge, but one that can be overcome.
Institutional Investor Activism and Corporate Governance

Craig Doidge, University of Toronto (Canada)  
Alexander Dyck, University of Toronto (Canada)  
Hamed Mahmudi, University of Oklahoma (United States)  
Aazam Virani, University of Toronto (Canada)

The conventional view is that institutional investor activism is generally not effective in addressing governance problems. It is costly for institutions to coordinate their actions and create common knowledge, which reduces their incentives and ability to influence firms. We focus on the efforts of the Canadian Coalition for Good Governance (CCGG), which represents about 40 Canadian institutional investors – including large pension funds and asset managers – and has emerged as a focal institution to influence the governance of Canadian corporations. Using public information as well as private information supplied by CCGG, we document CCGG’s success in improving the governance of Canadian corporations and show that its success rests on its efforts to create common knowledge at low cost and to lower the costs of collective action. While CCGG targets large firms and industry leaders, we show that their efforts have also affected the governance of other firms, consistent with CCGG’s strategy of creating a bandwagon effect. Our study highlights specific mechanisms that institutional investors can use to reduce the costs of coordinated action and documents the potential benefits (and limits) of collaborative strategies used by pension funds and asset managers in other jurisdictions. Our findings have broad implications for those interested in the tradeoffs between private and regulated approaches to corporate governance.

Health Risk and the Annuity Puzzle

David P. Richardson, TIAA-CREF (United States)  
Andries de Grip, Maastricht University (Netherlands)  
Nicolás Salamanca, Maastricht University (Netherlands)  
Rob Bauer, Maastricht University (Netherlands)

It has been widely believed that annuities greatly enhance individual welfare by helping people diversify various retirement-related risks, yet the empirical evidence indicates low demand for annuity products; this contradiction is termed the “annuity puzzle.” Health risks – in particular, large, costly health shocks late in life – have been postulated as one possible reason for the annuity puzzle. This project will provide the first empirical estimation of how household perceptions of health risk and health shocks affect annuitization decisions. Using a unique dataset that matches detailed administrative data from TIAA-CREF participants with a large-scale survey, we will estimate the effects of physical and mental health on the decision to annuitize individual retirement wealth. We will test these health factors against alternative explanations proposed in the literature, such as bequest motives and psychological biases. Our results will provide important insights that will help pension funds design innovative individual retirement products to give households the tools they need to make efficient annuitization decisions, thus improving the well-being of pension participants and their beneficiaries.

Comparative Risk Management Performance of Australian Superannuation Funds

Hazel Bateman, University of New South Wales (Australia)  
Nicholas Morris, University of New South Wales (Australia)

While Australia’s retirement income system is often hailed as one of the top three performers in the world, questions continue to be raised about its efficiency and, therefore, its ability to generate secure and adequate retirement incomes. Using nine years of fund-level data for Australian superannuation/pension funds released by the Australian Prudential Regulatory Authority, enhanced with data on pensions funds in Canada, Europe, and the United States from the CEM database, we use data envelopment analysis (DEA), supplemented by regression techniques, to explore the comparative performance of the Australian superannuation/pension industry. We identify performance differences, both by fund characteristics and internationally, that could enhance efficiency and thus improve retirement income outcomes for members of Australia’s mandatory retirement saving arrangements and for pension fund members around the world.

Annual Timelines for Research Project Proposals

- January – Call for Research Proposals issued
- Mid-February – Intent to Submit a Research Proposal
- Early April – Full Research Proposal
- Late April – Award decision made by Research Committee; winners notified
- June – Awarded proposals are announced in the Rotman International Journal of Pension Management

Submissions must be made via PRESTO! To access Submission Guidelines, please visit www.rotman.utoronto.ca/icpm and select Research Papers.
**Building Better Pension Plans**

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<td>Roel Beetsma, Zina Lekniute and Eduard Ponds</td>
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<td>Understanding Retirement Income Adequacy and its Measures</td>
<td>Malcolm Hamilton, Bonnie MacDonald and Kevin Moore</td>
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<td>Structuring Pension Funds and Service Providers to Save 3% per Year</td>
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**Investment Beliefs and Risk Management**

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<td>When do Derivatives Add Value in Asset Allocation Problems for Pension Funds?</td>
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<td>Pension Plan Solvency and Extreme Market Movements: A Regime Switching Approach</td>
<td>Niloufar Abourashchi, Iain Clacher, Mark Freeman, David Hillier, Malcolm Kemp and Qi Zhang</td>
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<td>Investment Beliefs that Matter: New Insights in the Value Drivers of Pension Funds</td>
<td>Kees Koedijk, Alfred Slager and Rob Bauer</td>
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<td>International Diversification and Labor Income Risk</td>
<td>Carolina Fugazza, Maela Giofre and Giovanna Nicodano</td>
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Pension Fund Governance and Organization Design

(in progress) Institutional Investor Activism and Corporate Governance (Canada / USA)
Craig Doidge, Alexander Dyck, Hamed Mahmudi, Aazam Virani

(in progress) Attitudes toward Extended Fiduciary Duty among Beneficiaries of Pension Funds (Sweden)
Joakim Sandberg, Magnus Jansson, Anders Biel and Tommy Gärling

(in progress) Pension Fund Collaboration: Ingredients for Success (Australia)
Danyelle Guyatt

(in progress) Emerging Fiduciary Duties of Major Institutional Investors (Canada / USA)
James Hawley, Keith Johnson and Ed Waitzer

Gordon L. Clark and Ashby Monk

(2009) Pension Fund Performance and Risk-Taking under Decentralized Investment Management (USA / UK)
David Blake, Allan Timmerman, Ian Tonks and Russ Wermers

(2008) Optimal Decentralized ALM (Netherlands)
Jules van Binsbergen, Michael Brandt and Ralph Koijen

(2008) Board of Trustee Composition and Investment Performance of US Public Pension Plans * (USA)
Joel Harper

(2007) Pension Reform, Ownership Structure and Corporate Governance: Evidence from Sweden * (Sweden / USA)
Mariassunta Giannetti and Luc Laeven

(2007) Identifying and Mobilizing Win-Win Opportunities for Collaboration Among Pension Fund Institutions and their Agents * (United Kingdom)
Danyelle Guyatt

Keith Ambachtsheer, Ron Capelle and Hubert Lum

(Netherlands / Canada)
Rob Bauer, Rick Frehen, Hubert Lum and Roger Otten

Case Studies

(2012) Buying into the 407: The Syndication Protocol as a New Model for Infrastructure Investing (Canada)
Alexander Dyck

(2011) Dynamic Asset Allocation
(Australia / Netherlands)
Jack Gray and Stephan Lundbergh

(2010) Climate Change and Pension Funds: Risk, Opportunity, or Distraction? (Netherlands)
Rob Bauer

(2009) Fiduciary Management: Next Steps in the Evolution of Pension Management (Netherlands)
Rob Bauer

(2006) PERS and the Pension Revolution: Redesigning the Investment Function (part 2) (Canada)
Keith Ambachtsheer

(2005) PERS and the Pension Revolution: Active Participant... or Passive Bystander? (part 1) (Canada)
Keith Ambachtsheer